

ISSUES

Climb Aboard the Altcoin Train or Be Left Behind

By Matt McCall and Charlie Shrem July 9, 2021

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We can't say we're surprised...

We've been calling this for a long time.

Bitcoin and altcoins appear to be losing their “fantasy internet money” stigma. They're capturing the attention of the masses... and institutions can no longer ignore the growing demand.

More and more consumers want exposure to the cryptocurrency market. They can't currently get that through traditional financial options.

Well, that doesn't bode well for the old school banks. They're losing deposits to crypto exchanges like Coinbase and other platforms including Square, PayPal, and Robinhood.

In May, Coinbase reported \$1.8 billion in revenue in its fiscal first quarter of 2021 – up from just \$585 million in the previous quarter. And leading up to its April IPO, there were an estimated \$90 billion in crypto assets on the platform. That's a whole lot of revenue and asset custody that Coinbase gained at the expense of traditional banks.

Robinhood is preparing to go public, too, and it stated in its IPO prospectus last week that 17% of its transaction-based revenue in the latest quarter came from cryptocurrencies. The platform's crypto assets skyrocketed in the first quarter from \$480 million to \$11.6 billion on a year-over-year basis. That's more than 2,300% growth!

Again, that's a lot of revenue and asset custody that Robinhood gained at the expense of traditional banks.

Are you sensing a pattern here?

This massive shift hasn't gone unnoticed by the banks... and they're working fast to adapt.

On June 30, New York Digital Investment Group (NYDIG) announced a partnership with digital payment giant National Cash Register (NCR) to create a mobile app that will allow U.S. bank customers to buy cryptocurrencies directly from their bank accounts. More than 650 banks – with approximately 24 million clients – have already signed on to the platform in an effort to stop the massive outflows to cryptocurrency exchanges and other platforms.

The assets will be kept in NYDIG's custody, so it's not fully decentralized. But it's a step in the right direction. The company is a subsidiary of asset management firm Stone Ridge, which already has roughly \$6 billion in assets under custody.

NYDIG announced its plan to offer crypto trading in early May in an attempt to challenge the likes of Coinbase, Square, and Robinhood. It only took a month to get the framework in place.

Traditional banks' move into the cryptocurrency space is very bullish for the long term. The NYDIG/NCR platform alone opens the floodgates to 24 million potential new investors! Think of it this way. Some of the more conservative banking customers may have been hesitant to move their money to crypto exchanges or related platforms in the past. But being able to stay within the comfort of their trusted bank removes that concern entirely.

Let's say that just 15% of those 24 million people actually buy cryptocurrencies through this new service. That's still 3.6 million new entries into the market! And it represents a significant amount of money coming in.

Plus... it's likely that a much larger percentage of those traditionally banked people will take advantage of the cryptocurrency opportunity. Banks wouldn't make such a systemic change for only a small portion of their customers.

The demand for crypto exposure is clearly strong, and this is a massive and important step by the traditional banking industry that will undoubtedly lead to increased adoption.

Visa is a great example of the potential here. The company announced its intentions to move into the crypto space earlier this year, and just this week it said it has already handled \$1 billion in related transactions. That's a huge number. Visa has relationships with more than 50 crypto platforms including Coinbase, BlockFi, and Crypto.com – all of which have issued Visa-powered payment cards that allow consumers to pay with cryptocurrencies at 70 million merchants across the globe.

Wall Street is Taking Notice

It's not just the banks adapting their business models.

PwC recently released its *3rd Annual Global Crypto Hedge Fund Report 2021* and shined a light on where things might be heading by the end of the year. The report didn't get nearly the attention it deserved, but the implications are incredibly bullish.

If you love the crypto space as much as we do, we encourage you to check out the full report. [Click here](#) and scroll down to the bottom of the webpage for the download link. It's 52 pages long but worth the read. For today, let's discuss the most important points...

According to the report, total assets under management by crypto hedge funds around the world increased about 90% from \$2 billion in 2019 to nearly \$3.8 billion in 2020. That's a massive increase, but don't be surprised to see another double (or even triple!) in next year's report.

Approximately 21% of hedge funds are now investing in digital assets, with an average of 3% of their total assets under management invested in the space. That's an incredibly small percentage. Imagine the possibilities if it increases to 5%... or even 10%.

Plus, more than 85% of those hedge funds plan to deploy more capital into the asset class by the end of this year. And about a quarter of the hedge fund managers not yet

invested in digital assets said they are either looking to invest or in late-stage planning to do so.

PwC's comprehensive survey confirms that more money is coming into the space – and fast. It's only a matter of time before more hedge funds and institutions climb aboard.

Why?

Because crypto hedge funds massively outperformed all other asset classes in 2020. They were able to record gains in a significant crypto bear market in 2019... and even came close to the performance of the S&P 500. For reference, the index returned 31.5% in 2019 for its best year since 2013. In 2020, it climbed 18.4%.

The chart below shows the last two years' performance of the surveyed hedge funds:

2020 vs 2019 crypto hedge fund median performance comparison		
	2020	2019
Quantitative Long / Short	+72%	+17%
Discretionary Long / Short	+129%	+23%
Discretionary Long Only	+294%	+10%
Multi-strategy	+114%	+12%

As you can see, the hedge funds' 2020 performance absolutely crushed the S&P 500.

So just as the traditional banks are being forced to adapt to the growing cryptocurrency economy, hedge funds are being faced with the same dilemma. Their options are to provide clients with access to what they want or watch them flee en masse to other platforms.

The PwC report also noted obstacles to investing. The regulatory uncertainty is by far the greatest barrier to entry at 82%. Even 50% of hedge fund managers who already invest in digital assets cite it as a major challenge.

Nearly 80% of respondents said that client reaction/reputational risk is a concern, while 71% noted current service provider availability and lack of infrastructure as an issue.

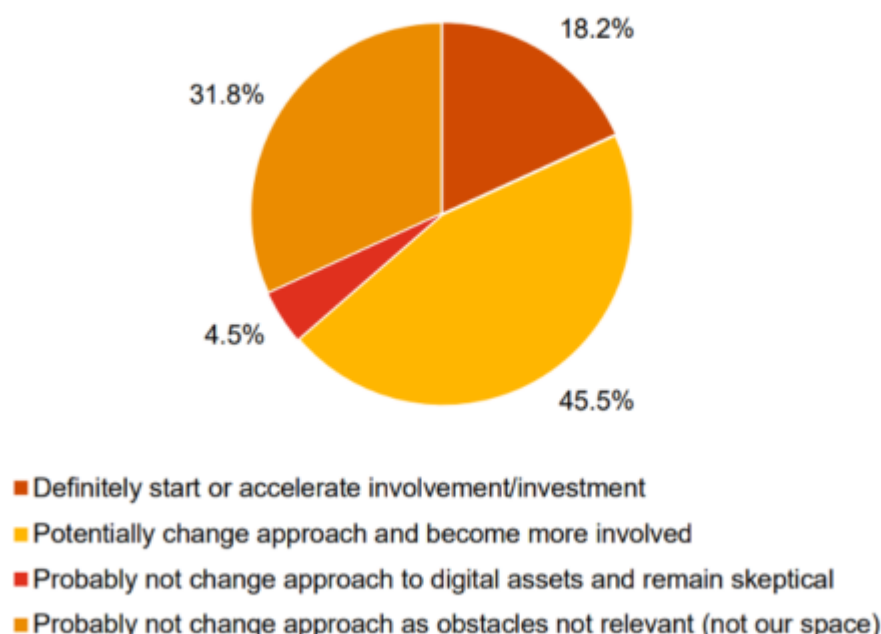
(This likely refers to custody of the digital assets.) Sixty-eight percent of those surveyed said that digital assets are outside the scope of current investment mandates.

These are all very notable concerns in the current environment...

But let's say all of those main obstacles were removed. Would more hedge fund managers be inclined to move into cryptos?

According to the survey, the answer is YES.

If the main obstacles to investing were to be removed would you



More than 60% of respondents said they would at the very least consider becoming more involved in digital assets if those main concerns were addressed.

The good news is that we're already on that path. Many (if not all) of these issues will be resolved in the future... and some already have solutions.

There is understandably a lot of fear, uncertainty, and doubt surrounding some of these topics right now, but there is an important initiative already underway to help those hesitant institutions take the plunge. More on that later...

No Signs of a Bear Market

It's no secret that the price action in bitcoin hasn't been great in recent months.

The industry bellwether and world's largest cryptocurrency is down about 50% from its April 14 peak above \$64,000. That's a pretty steep decline...

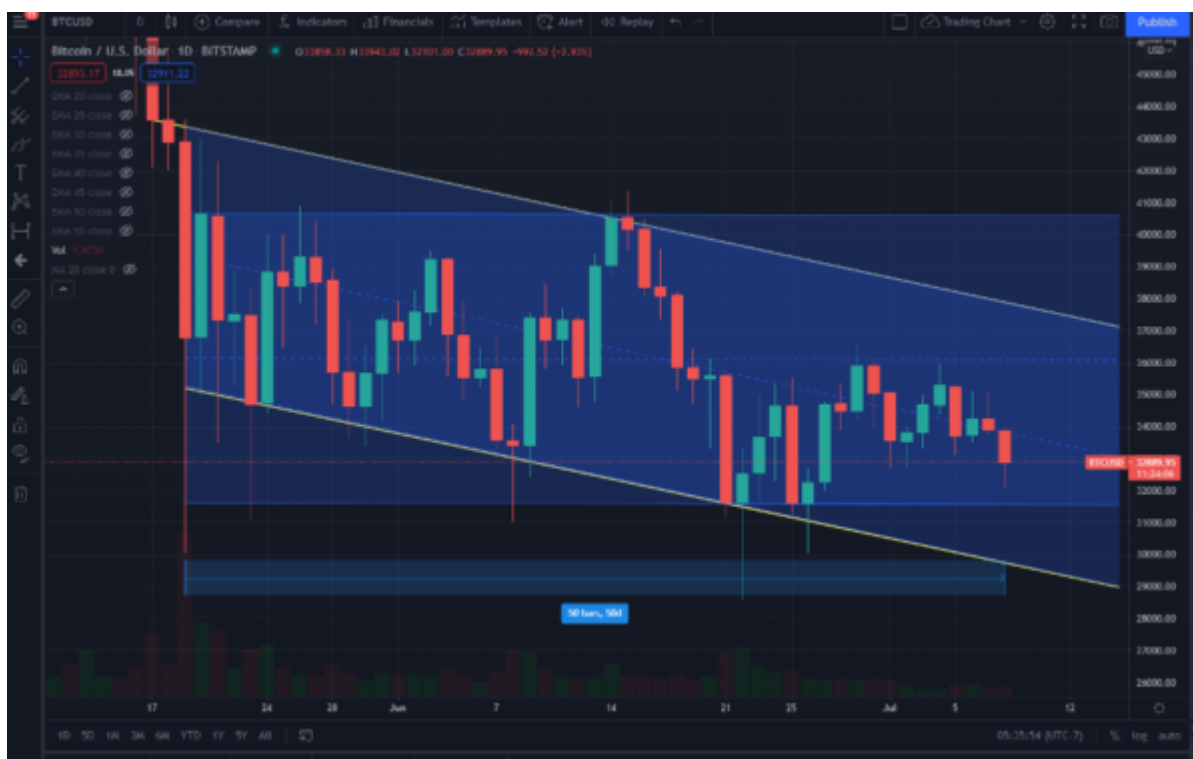
But it's also no secret that the cryptocurrency market is incredibly volatile.

History shows that when bitcoin is below its 20-week simple moving average (SMA), altcoins have a difficult time trending higher let alone breaking out to new highs.

That's where we are today. Bitcoin fell below its 20-week SMA on May 15. Altcoins broke down even harder around the same time and have not been able to sustain any sort of rally since.

As of yesterday (July 8), the 20-week SMA was at \$46,800 – about 40% above bitcoin's current price. The altcoin market responds very rapidly to bitcoin volatility, so if we see even a moderate uptick toward that level we can expect altcoins to massively outperform their larger peer.

Bitcoin has been trading in a range between \$31,500 and \$40,500 for about seven weeks now. There's enough price action to form some market structure – both a sideways channel and a descending channel (the blue shaded areas in the chart below), with the latter taking more and more control. The key level we're watching in the short term is \$36,000. It's currently acting as resistance in the sideways channel.



As long-term investors, our job in the meantime is to roll with the punches and keep our sights set on the big picture – the great crypto awakening that will change so much about our lives and eventually lead to higher altcoin prices.

Even with the increased volatility and frustrating near-term performance, this awakening continues to unfold in front of us. And despite what the financial media pundits might be saying, there are absolutely no signs of a bear market on the horizon.

In fact, we're seeing signs of just the opposite...

The bitcoin network is still growing. More than 34,000 new entities are coming into bitcoin every day, which is a very positive trend and lends credibility to the idea that the downward action since April is nothing but a garden variety correction. Not a new bear market.

And it's not only new entities coming online. Glassnode uses mathematical models to identify entities on the blockchain, and the chart below shows the strong growth we've been seeing recently.

Bitcoin: Entities Net Growth (14d Moving Average)



The whales are buying. Bitcoin “whales” are defined as entities that hold 1,000 or more bitcoins. So if bitcoin is trading at a modest \$35,000, their positions are worth more than \$35 million. Whales are fundamentally important to the crypto market because they have a lot of firepower to move it one way or the other.

Current data indicates that these whales have stopped selling and are in fact adding to their positions – even with the less-than-impressive performance. That means they view the current weakness as a buying opportunity... and expect the price action to trend upward again.

Take a look at the chart below. You can see the whales’ substantial increase in buying this month.



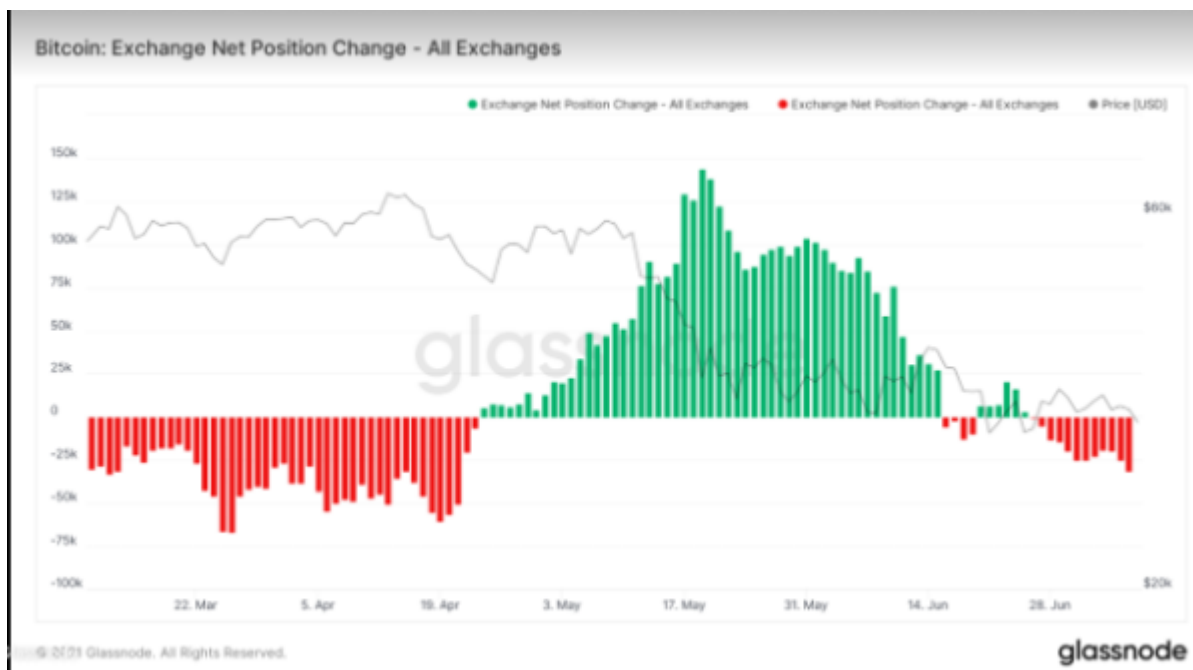
This isn't necessarily an "all clear" signal for the market. But the increase in buying is certainly an encouraging sign.

Bitcoin is moving off the exchanges. More experienced crypto investors – like the whales we just talked about – do not typically leave their cryptocurrencies on centralized exchanges or platforms. It's just like leaving your cash in a bank, which counteracts one of cryptocurrencies' greatest values. You have to rely on a middleman. Instead, many investors take custody of their coins and hold them in safer options, like offline wallets.

Here's what that means for us...

Generally speaking, a significant increase in coins being sent to exchanges can be viewed as a bearish signal, as this indicates that investors are preparing to sell. Conversely, coins leaving exchanges relieves selling pressure by removing supply and tells us that investors are likely planning to hold.

The latter is what we're seeing today. Notice that the massive green bars (which show bitcoins moving onto exchanges) in the chart below coincide with the May sell-off. But the trend is shifting. We are now seeing net outflows (the red bars), with more than 31,000 bitcoins leaving exchanges just on July 7. That's a bullish signal.



The Puell Multiple is flashing a buy signal. Miners are the backbone of the bitcoin network. They provide computational power to process transactions and secure the network. Oftentimes, their behavior can tell us a lot about where the market might be heading...

That's where the "Puell Multiple" comes in. It looks at the bitcoin supply by bitcoin miners and their revenue. The multiple is calculated by dividing the daily issuance value of bitcoins (in U.S. dollars) by the 365-day moving average of daily issuance value, and it provides potential buy and sell zones based on historical data.

Those zones are highlighted on the chart below. The red shaded box indicates periods when the value of bitcoins issued daily was extremely high. These were profit-taking opportunities for bitcoin investors. Notice that the Puell Multiple (the orange line) didn't move into the red zone during the April peak like it had three other times since 2012.



The green shaded box shows the opposite – periods when the daily issuance value was extremely low. When the Puell Multiple dips to this level, it oftentimes represents a fantastic buying opportunity for smart investors. The black line is bitcoin's price, and as you can see investors who bought during these periods and held for the long term were rewarded with massive and potentially life-changing returns.

Well, it looks like the Puell Multiple is dropping into the green box again. And if bitcoin is about to rally, you can bet our altcoins are primed to soar as well – possibly even stronger.

There's one more thing to mention here. The most recent near move into the red zone was almost certainly caused by what's being called "the great mining migration." Bitcoin miners in China are being forced to go offline and relocate their operations outside of the country due to regulatory concerns. The Chinese government has finally decided to enforce the bans that were put in place in 2014 and further developed in 2017.

The good news is that the migration is ultimately a positive for bitcoin and the crypto market in general. There was a far too heavy concentration of mining capacity in China, so the migration will create a more decentralized network... which we welcome with open arms.

So... the data is clear.

While it is always difficult to watch our investments underperform and even stagnate at times, all of our screens are telling us to stay patient. Keep our heads. And rely on what we know to be true.

The awakening that we've been talking about is happening. Bitcoin, altcoins, and the blockchain technology they run on will change the world around us.

And those smart investors who make their moves now... in the right altcoins with the most upside potential... and hold on for the long term... stand to benefit the most.

Speaking of the right altcoins, let's talk about our portfolio now.

Updates on our Recommended Coins

June was a tough month for our altcoin portfolio.

All five of our holdings pulled back double digits for an average loss of 27%. This greatly underperformed bitcoin, which was down only 6%.

The first week of July has been a bit better. Both **The Graph (GRT)** and **Monero (XMR)** have bounced. The portfolio as a whole is down 2% since June 30 while bitcoin is down another 6%.

Here's what that tells us...

First, altcoins are selling off. We know that. We also know that they are selling off because bitcoin is selling off. Altcoins outperform bitcoin when the larger cryptocurrency rallies – that's part of the awakening that we're here to capture over the long term. So the opposite must also be true on the downside.

There is a very clear correlation between altcoins and bitcoin. It's been this way for more than four years. We looked at a list of the top 150 altcoins and can't find one that has significantly decoupled from this correlation on a sustained basis. Rallies are typically sold off while bitcoin remains in a sustained downtrend.

Look at the recent action in **Polkadot (DOT)**, for example. It's the blue line in the chart below. Bitcoin is the orange line. Notice anything?



We could show you a chart of any one of our altcoins versus bitcoin and it would show the same thing. We're working in a heavily correlated world. That may change in the future. But not today.

So yes... our altcoins are underperforming bitcoin in the short term. But we aren't here for short-term profits. The awakening won't happen overnight. It will take weeks, months, and possibly even years.

Now let's zoom out and look at the six-month performance of our portfolio. This is where things get really interesting.

Between December 31 and June 30, all five of our altcoins are higher. Three are up double digits. One is up more than 120%. And the fifth is up 273%. Our portfolio as a whole climbed 116%.

Now... how did bitcoin perform?

It was up just 21% over that same six-month period.

The chart below is a bit congested, so it may be hard to see. But here's what you need to know. The light blue line at the bottom is bitcoin. The other colored lines are our altcoins... and all are significantly higher.



Even with the negative action in bitcoin over the last seven weeks – which our altcoins are heavily correlated to – every single one of our holdings is outperforming the industry bellwether since the start of the year.

That's a pretty positive theme to focus on...

As you know, we take the long-term approach to investing here at *Crypto Investor Network*. We focus on the big picture... and that big picture continues to point to higher prices. We may have to be patient as bitcoin and altcoins chop around in the near term. But if bitcoin makes its way to 100K in the next 12 months – and we continue to expect it will – our portfolio of the best positioned altcoins will massively outperform.

So with that, let's take a closer look at what's been going on with each of our holdings.

Monero (XMR) has struggled in its first couple of months in our portfolio, pulling back even further since our last issue to current prices above \$200. But far more important here is the fact that it remains up 500%+ from its March 2020 lows, and overall the coin continues to have strong long-term potential.



Remember that Monero is the only truly anonymous altcoin – and privacy is *everything* in this industry. That makes it one of the most actively used cryptos, with entire communities and industries preferring it over any other coin. In fact, the only reason Monero isn't more valuable right now is because most exchanges don't offer it, making it very difficult for investors to buy.

All things considered, Monero remains a great long-term holding. While its price is being suppressed because of a lack of availability, its demand only continues to increase. **Buy XMR up to \$430.** It can be purchased on the Voyager exchange.

Polkadot (DOT) has cooled off following its incredible bull run earlier this year. It was one of our worst performers over the last month, having pulled back nearly 30%.

It's worth noting that the coin was listed on Coinbase Pro in the middle of June. This sparked only a brief rally in the coin, but in the big picture this is positive given the platform's very specific and stringent criteria (which you can [click here to read more about](#)) and the fact that it remains the largest crypto exchange in the United States. It is a key part of the infrastructure for the industry to keep growing, which makes any Coinbase listing a very big deal.

Holding back Polkadot right now is the fact that its parachains have not yet launched. These parachains were supposed to revolutionize blockchain technology, and while there has been a lot of positive speculation surrounding them the launch keeps getting delayed.

Polkadot may remain stagnated until that happens. But if the parachains are as successful as expected once launched, they should act as a catalyst to send this altcoin rallying long term. Let's stay patient here – especially as we're currently sitting on 270%+ overall profits. **DOT remains a good buy up to \$41.** You can buy it on Kraken or Bittrex.

Stellar Lumens (XLM) has traded on par with the broad crypto market. But while it's down over the last month, developments beneath the surface remain encouraging.

In particular, the Stellar Development Foundation announced plans to launch an automated market maker (AMM) that will allow users to exchange tokens and provide liquidity much like our very own decentralized finance (DeFi) exchange **Uniswap (UNI)**. In other words... it is attempting to get in on the DeFi craze.

It remains to be seen how popular Stellar's version of a DeFi exchange will be, but the news is encouraging nonetheless. With the overall trend still positive, **keep buying XLM up to \$0.65** on Coinbase.

The Graph (GRT) has held up much better than most of its peers over the last month, pulling back only slightly after having rallied from \$0.52 at the beginning of July to a recent high just under \$0.80. That's a 54% pop in a week!

The biggest piece of news here recently was The Graph Foundation granting \$60 million to a company called StreamingFast to get it to join The Graph's network and help develop its technology.

It's also worth noting that Yaniv Tal, the co-founder of the Graph protocol creator Edge & Node, said this week that the initiative to decentralize the platform from a centrally hosted service is underway. He noted that independent indexers would "run nodes and process queries in an open marketplace" and that curators would "organize data and signal which subgraphs are useful and accurate."

Subgraph curators will eventually no longer have to publish directly to The Graph's hosted service. That's a huge positive step. The more decentralized the project is... the stronger the project becomes. As we've discussed, decentralization is one of the most important principles of cryptocurrencies.

At the current tally, 20,000 developers have built roughly 16,000 subgraphs hosted on The Graph's centralized hosting service. And eight dApps have migrated to its decentralized protocol. That's already strong growth!

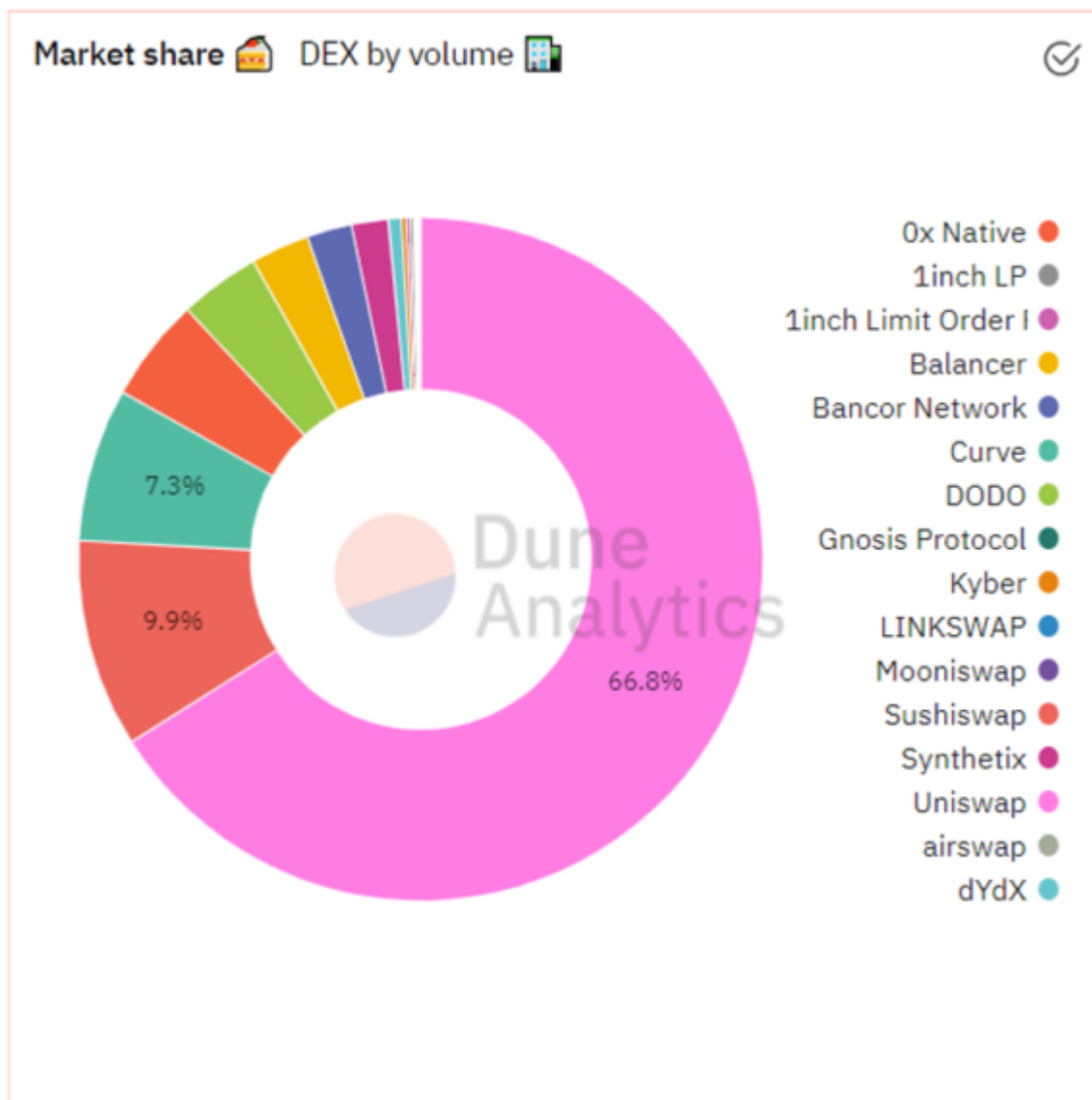
Even with the last week's more positive trading, the "Google of the Blockchain" remains in a downward trend since hitting highs above \$2.70 in February. But absolutely nothing is fundamentally wrong here – the negative price action is almost perfectly in lock step with bitcoin's. Once bitcoin starts trading higher again, The Graph should move up substantially. **GRT remains a buy up to \$1.90.** It can be bought on Coinbase.

Uniswap (UNI) has had a rollercoaster month – falling from \$29 in early June to \$14 a few weeks later. On Thursday it was back up at \$23. The action indicates that the DeFi sector may be recovering from the recent bearishness.

We can also see the changing sentiment in the numbers. Between late June and early July, the total value locked (TVL) in DeFi platforms increased from \$48 billion to \$56 billion. That's a stark reversal from the decline in TVL that began in mid-May.

The DeFi space in general and Uniswap in particular are showing signs of bullishness, and it is likely that this trend will continue at least in the short term. It might even be a precursor to a larger scale crypto rally – as long as there aren't any major negative events in the weeks ahead, of course.

In the meantime, Uniswap continues to dominate the decentralized exchange space with nearly 67% market share. That's an incredible percentage in a very crowded space. Its closest competitor is SushiSwap, which has only a 10% market share. It's like Uniswap is in the major leagues and everyone else is still playing college baseball.



Uniswap has been our best overall performer, as we continue to sit on 350%+ gains since September 2020. With plenty of upside ahead, take advantage of every opportunity to **buy UNI below \$35 if you don't already own it**. You can purchase it on Coinbase.

It's All Coming Together...

Our screens might be signaling better times ahead, but we all know that periods of consolidation and even declining prices typically require some sort of spark to break the trend.

Well, several cryptocurrency catalysts are already here... and a few more are on the horizon. One big one in particular.

As we talked about earlier, the fact that 650 banks are about to allow their customers to buy cryptos directly is huge. Remember, these banks are not doing this because they want to. They're doing it because they *have* to. Demand for crypto exposure is growing rapidly, and the old school financial industry is having to adapt fast.

Hedge funds are also on board the crypto train. Already participating funds plan to add more exposure this year to appease client demands. And those that haven't yet will soon realize that the risk of not owning digital assets is actually bigger than the alternative.

We hinted earlier that there was an important initiative underway to help nudge those hesitant institutions along... and it's fast approaching on July 21.

It's called "The B Word" initiative.

At the huge bitcoin conference in Miami last month, Twitter and Square CEO Jack Dorsey said that his mission in life is to spread adoption and promote awareness of bitcoin. The B Word seems to be the next iteration of that statement.

The B Word is an online conference that will take place on July 21 and feature Dorsey and other notable speakers. Square is co-sponsoring the event along with investment firms ARK Invest and Paradigm, as well as the Crypto Council for Innovation.

The conference will feature ARK Invest CEO Cathie Wood as well as Blockstream Co-Founder and CEO Adam Back and other prominent bitcoin developers like John Newbery. It will also include Michael Morell, the former acting and deputy director of the CIA and current senior counsel of Beacon Global Strategies. That's a strong line up to push the institutional use case for bitcoin.

(On a side note, Charles Hoskinson, the founder of Cardano, recently stated on a four-hour podcast with Lex Fridman that he thinks Adam Back may be the anonymous creator of bitcoin. Very interesting.)

According to the official website, The B Word "aims to demystify and destigmatize mainstream narratives about bitcoin, explain how institutions can and should embrace

it, and raise awareness around areas of the network that need support.” In addition to the conference, The B Word will provide a library of resources for institutions considering bitcoin.

As we have talked about today, more and more are doing just that.

MicroStrategy CEO Michael Saylor is a leading advocate in this space. His company currently holds more than 105,000 bitcoins on its balance sheet worth an estimated \$3.5 billion. In several recent interviews, Saylor said that it takes three-six months for corporations and institutions to add bitcoin to their portfolios due to the approval process.

So let’s backtrack. The entities that began seriously considering bitcoin and other digital assets as part of their strategies earlier this year are just about ready to start doing so...

It’s all coming together, folks.

We got in early and are in position to make the big, life-changing profits. Now we just have to stay patient and enjoy the ride.

Sincerely,



Matt McCall
Editor
Crypto Investor Network



Charlie Shrem
Editor
Crypto Investor Network